

WASATCH COUNTY
SPECIAL SERVICE AREA #1
A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2005

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2005

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INDEPENDENT AUDITORS' REPORT

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the accompanying financial statements of Wasatch County Special Service Area #1, a component unit of Wasatch County, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Wasatch County Special Service Area #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wasatch County Special Service Area #1 as of December 31, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2006 on our consideration of Wasatch County Special Service Area #1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages MDA-1 through MDA-6 are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2006

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Wasatch County Special Service Area#1, we offer readers of the Area's financial statements this narrative overview and analysis of the Area's financial performance during the year ending December 31, 2005. Please read it in conjunction with the Area's financial statements and additional information that we have furnished in the independent Auditor's report.

FINANCIAL HIGHLIGHTS

- The Area's total net assets increased from \$ 201,835 to \$ 267,549 primarily due to an increase in Cash.
- The Area's operating expenses decreased .65 % from 2004 by (\$ 2,469) which is not a significant decrease for the year.
- The District's revenues increased over 2004 by \$ 10,313 due to contracts with irrigation companies for fees relating to the Central Utah Water Project for additional water sales in 2005 and more interest earned from the Area's Public Treasurer's Investment Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this Management's Discussion and Analysis report, the Independent Auditor's Report and the basic financial statements of the Area. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Area report information of the Area using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the Area's activities. The Statement of Net Assets includes all of the Area's assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and the obligations to Area creditors (liabilities). It also provides the basis for evaluating the capital structure of the Area and assessing the liquidity and financial flexibility of the Area.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Area's operations over the past year and can be used to determine whether the Area has successfully recovered all its costs through its fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financial activities and provides answers to such questions as where did cash come from, what was it used for, and what was the change in the cash balance during the reporting period.

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Area and the changes in them. The Area's net assets, or the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the Area's net assets will be one indicator of whether its financial health is improving or deteriorating. However, in the future one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET ASSETS

**Table A-1
Statement of Net Assets
2005**

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 520,103	\$ 469,309	\$ 50,794	10.8
Capital Assets	<u>12,296</u>	<u>18,360</u>	<u>(6,064)</u>	<u>(33.0)</u>
Total Assets	<u>\$ 532,399</u>	<u>\$ 487,669</u>	<u>\$ 44,730</u>	<u>9.2</u>
Long-term Debt Outstanding	\$ 0	\$ 0	\$ 0	0.0
Other Liabilities	<u>264,850</u>	<u>285,834</u>	<u>(20,984)</u>	<u>(7.3)</u>
Total Liabilities	<u>\$ 264,850</u>	<u>\$ 285,834</u>	<u>\$ (20,984)</u>	<u>(7.3)</u>
Invested in Capital Assets, Net of Related Debt	\$ 12,296	\$ 18,360	\$ (6,064)	(33.0)
- Restricted	0	0	0	0.0
- Unrestricted	<u>255,253</u>	<u>183,475</u>	<u>71,778</u>	<u>39.1</u>
Total Net Assets	<u>\$ 267,549</u>	<u>\$ 201,835</u>	<u>\$ 65,714</u>	<u>32.5</u>

As can be seen from the table above, net assets increased from \$201,835 to \$267,549 in 2005. The increase in net assets was primarily due to an increase in Cash as reflected in Changes in Current and Other Assets. Cash was significantly higher in 2005 because of payments made to the Area by Irrigation Companies for total price of water under contract whether the water was used or not used by the irrigation companies. Changes in Other Liabilities were due to the invoiced amount payable to the Central Utah Water Conservancy District.

WASATCH COUNTY SPECIAL SERVICE AREA#1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET ASSETS (cont.)

**Table A-2
Statement of Revenues,
Expenses, and Changes in Net Assets
2005**

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 443,313	\$ 435,462	\$ 7,851	1.8
Nonoperating Revenues	<u>4,758</u>	<u>2,294</u>	<u>2,464</u>	<u>107.3</u>
Total Revenues	<u>448,071</u>	<u>437,756</u>	<u>10,315</u>	<u>2.4</u>
Depreciation Expense	6,064	9,636	(3,572)	(37.1)
Other Operating Expense	376,293	375,188	1,105	.3
Nonoperating Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	<u>382,357</u>	<u>384,824</u>	<u>(2,467)</u>	<u>(.6)</u>
Income (Loss) Before Capital Contributions	65,714	52,932	12,782	
Capital Contributions	<u>0</u>	<u>0</u>	<u>0</u>	
Changes in Net Assets	65,714	52,932	12,782	
Beginning Net Assets	<u>201,835</u>	<u>148,903</u>	<u>52,932</u>	
Ending Net Assets	<u>\$ 267,549</u>	<u>\$ 201,835</u>	<u>\$ 65,714</u>	

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, income before contributions of \$65,714 was the increase in net assets in 2005.

The decrease in Total Expenses of (\$2,467) is not a significant decrease from 2004.

The increase in the Area's operating revenue of \$ 7,851 is due to contracts with the irrigation companies for fees relating to the Central Utah Water Project in Wasatch County.

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

BUDGETARY HIGHLIGHTS

The Area adopts an annual Budget by resolution following a public hearing. The Budget includes proposed expenses and the means of financing them. The Area's Budget remains in effect the entire year and is subject to revision if necessary during and/or at the end of the year following a public hearing and adoption by the Governing Board by resolution. A quarterly budget comparison and analysis is presented to management and to the Governing Board for their review.

**Table A-3
Budget vs. Actual
2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
From Operations	\$ 434,850	\$ 443,313	\$ 8,463
Non-operating	<u>2,500</u>	<u>4,758</u>	<u>2,258</u>
Total	<u>437,350</u>	<u>448,071</u>	<u>10,721</u>
Operating Expenses			
Employee Costs	77,350	76,505	(845)
Overhead & Management	12,000	11,685	(315)
CUWCD Repayment Costs	270,000	258,443	(11,557)
Supplies, Materials, Services	30,800	29,660	(1,140)
Depreciation	9,700	6,064	(3,636)
Other	<u>750</u>	<u>0</u>	<u>(750)</u>
Total Expenses	<u>400,600</u>	<u>382,357</u>	<u>(18,243)</u>
Income (Loss)	<u>\$ 36,750</u>	<u>\$ 65,714</u>	<u>\$ 28,964</u>

The final adopted budget for 2005 is represented in Table A-3 above. The decrease in depreciation expense of (\$3,636) compared to budget was the cause of a vehicle fully depreciated during 2005. The decrease in CUWCD repayment costs of (\$11,557) are due to anticipated additional water sales in 2005 not realized. The decrease in supplies, materials, services of (\$1,140) is a result of anticipated expenses not incurred during the year.

WASATCH COUNTY SPECIAL SERVICE AREA#1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CAPITAL ASSETS

**Table A-4
Capital Assets
2005**

	<u>2005</u>	<u>2004</u>	<u>Dollar</u> <u>Change</u>	<u>Total</u> <u>Percent</u> <u>Change</u>
Office Equipment	\$ 1,738	\$ 1,738	\$ 0	0.0
Vehicles	39,138	39,138	0	0
Equipment	8,848	8,848	0	0
Water Lines	<u>3,866</u>	<u>3,866</u>	<u>0</u>	<u>0</u>
Sub-total	53,590	53,590	0	0
Less: Accum. Depreciation	<u>(41,294)</u>	<u>(35,230)</u>	<u>(6,064)</u>	<u>0</u>
Net Assets	<u>\$ 12,296</u>	<u>\$ 18,360</u>	<u>\$ (6,064)</u>	<u>(33.0)</u>

The Area's net assets decreased by (\$ 6,064) to \$ 12,296 due to normal depreciation of \$ 6,064. Gross assets remained the same compared to 2004 due to no sales or purchases.

WASATCH COUNTY SPECIAL SERVICE AREA #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

DEBT ADMINISTRATION

The Area currently has no long-term debt in the form of notes, bonds, or warrants. All liabilities are current and paid within 30 days of invoice.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County Council and management of the Area considered many factors when setting the year 2006 budget. One of those factors is the local economy and the impact our rates will have on the local irrigation companies and water users. The Area is dedicated to practice water conservation and commits itself to train and keep up to date employees and management on this subject. The training and knowledge the Area receives in conserving and effectively using water will be passed on to local irrigation companies and water users that will be helpful during the drought that currently exists in the State. The Area works closely with the Central Utah Water Conservancy District in the management and use of water within Wasatch County. The Area and the CUWCD has set into place fees in 2006 that will be competitive with other Area's and District's within Wasatch County and the State.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the Area's finances and to demonstrate the Area's accountability for the money it receives. If you have questions about this report or need additional information, contact the Wasatch County Special Service Area#1, 55 South 500 East #118, Heber City, Utah 84032.

FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

Fund financial statements

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

WASATCH COUNTY SPECIAL SERVICE AREA #1

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Net Assets

December 31, 2005

With Comparative Totals for December 31, 2004

ASSETS		<u>2005</u>	<u>2004</u>
Current Assets			
Cash and cash equivalents (Notes 1 and 2)	\$	193,855	\$ 166,813
Accounts receivable (Note 1)		<u>326,248</u>	<u>302,496</u>
Total current assets		<u>520,103</u>	<u>469,309</u>
Noncurrent Assets			
Depreciable equipment, net (Notes 1 and 4)		<u>12,296</u>	<u>18,360</u>
Total assets	\$	<u><u>532,399</u></u>	<u><u>\$ 487,669</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$	649	\$ 1,128
Accrued payroll and related benefits		4,054	3,721
Payable – other governmental unit (Note 5)		<u>260,147</u>	<u>280,985</u>
Total liabilities	\$	<u><u>264,850</u></u>	<u><u>\$ 285,834</u></u>
NET ASSETS			
Invested in capital assets	\$	12,296	\$ 18,360
Unrestricted		<u>255,253</u>	<u>183,475</u>
Total net assets	\$	<u><u>267,549</u></u>	<u><u>\$ 201,835</u></u>

WASATCH COUNTY SPECIAL SERVICE AREA #1
A COMPONENT UNIT OF WASATCH COUNTY
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Charges for services	\$ 443,313	\$ 435,462
Total operating revenues	<u>443,313</u>	<u>435,462</u>
Operating Expenses		
Assessments paid to CUWCD	258,443	279,157
Bad debt		13,000
Insurance	200	200
Professional and technical	20,118	13,532
Payroll and related benefits	76,505	56,515
Utilities	589	902
Supplies	1,088	2,027
Services	16,911	8,686
Travel	2,439	1,135
Miscellaneous		34
Depreciation	6,064	9,636
Total operating expenses	<u>382,357</u>	<u>384,824</u>
Operating income	<u>60,956</u>	<u>50,638</u>
Nonoperating Revenues		
Interest revenue	4,758	2,294
Total nonoperating revenues	<u>4,758</u>	<u>2,294</u>
Change in Net Assets	65,714	52,932
Net assets – beginning of year	<u>201,835</u>	<u>148,903</u>
Net assets – end of year	<u>\$ 267,549</u>	<u>\$ 201,835</u>

WASATCH COUNTY SPECIAL SERVICE AREA #1

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Cash Flows

For the Year Ended December 31, 2005

With Comparative Totals for the Year Ended December 31, 2004

	2005	2004
Cash Flows from Operating Activities		
Receipts from customers	\$ 419,561	\$ 416,926
Payments to suppliers	(321,105)	(294,473)
Payments to employees	(76,172)	(53,635)
Net cash provided by operating activities	<u>22,284</u>	<u>68,818</u>
Cash Flows from Investing Activities		
Interest	<u>4,758</u>	<u>2,294</u>
Net cash provided by investing activities	<u>4,758</u>	<u>2,294</u>
Net increase in cash and cash equivalents	27,042	71,112
Balances – beginning of year	<u>166,813</u>	<u>95,701</u>
Balances – end of year	<u>\$ 193,855</u>	<u>\$ 166,813</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 60,956	\$ 50,638
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	6,064	9,636
Changes in assets and liabilities		
Increase in accounts receivable	(23,752)	(5,536)
Increase (decrease) in accounts payable	(21,317)	11,166
Increase in accrued liabilities	333	2,914
Net cash provided by operating activities	<u>\$ 22,284</u>	<u>\$ 68,818</u>

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2005

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of Wasatch County Special Service Area #1's (Service Area) management, which is responsible for their integrity and objectivity. They have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and present the financial position, the changes in its financial position, and the cash flows of the Service Area as of December 31, 2005, and for the year then ended. This summary of significant accounting policies of the Service Area is presented to assist in understanding the financial statements.

Reporting Entity

Wasatch County Special Service Area #1 was created by Wasatch County in 1993. The Service Area was created to manage the water distribution for Wasatch County. The Service Area is the representative for Wasatch County in the Central Utah Project, as defined by the Central Utah Water Completion Act.

Component Unit

Under the guidelines established by GASB 39, the Service Area has been determined to be a component unit of Wasatch County for financial accounting purposes and is included as a blended component unit in the County's financial statements.

Basis of Accounting

Enterprise funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and noncurrent, are included on the statement of net assets. The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time they are incurred.

Enterprise funds follow all GASB pronouncements. In addition all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 are followed unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principle operating revenues of the Service Area are charges to customers for water provided by the Service Area. Operating expenses for the Service Area include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Accounts Receivable

The Service Area normally does not write off accounts receivable. The Service Area can cease the delivery of water to customers whose accounts are not current. This capability is considered to be sufficient leverage to ensure the eventual collection of all fees; therefore, an allowance for doubtful accounts is not recorded in the financial statements.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Service Area as assets with an initial, individual cost of more than \$1,000.

The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Water lines	50 years
Vehicles	5 years
Equipment	5-10 years
Office equipment	5 years

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

Compensated Absences

The Service Area's compensation policy permits employees to accumulate up to one year of unused vacation. Accrued vacation is paid out upon termination or retirement. Sick leave is paid out at one-half the amount accrued upon retirement or forfeited at termination of employment; therefore, the amount is excluded from accrued compensated absences. The amount of accrued vacation is \$589, as of December 31, 2005.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Service Area retains the risk of loss. As of December 31, 2005, no claims had been made. The Service Area also carries commercial worker's compensation insurance. For insured programs there were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Budgeting

The Service Area's governing board adopts a budget for each calendar year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary to accommodate current operations, and are accepted by official vote of the board. The budget for the year ended December 31, 2005 was not amended.

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

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Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Service Area defines cash and cash equivalents as all deposits in its checking account, and all highly liquid debt instruments purchased with a maturity of three months or less.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Area or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Service Area first utilizes restricted resources to finance qualifying activities.

Any amounts not meeting either of the requirements described above are reported as unrestricted net assets.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments for the Service Area are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council (the Council). Following are discussions of the Service Area's exposure to various risks related to its cash management activities.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Service Area's deposits may not be recovered. The Service Area's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Service Area to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005 all of the Service Area's bank balance of \$44,156 was insured by the FDIC.

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

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Notes to Financial Statements

December 31, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Service Area's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The Service Area is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2005, the Service Area had investments of \$152,366 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Service Area manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

NOTE 3 – ECONOMIC DEPENDENCY

The Service Area is economically dependent on the revenues it receives from providing services within its boundaries. The Service Area received nearly 100 percent of its revenues from these sources.

**WASATCH COUNTY
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Notes to Financial Statements

December 31, 2005

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Capital assets, being depreciated				
Water lines	\$ 3,866			\$ 3,866
Vehicles	39,138			39,138
Equipment	8,848			8,848
Office equipment	1,738			1,738
Total capital assets, at historical cost	<u>53,590</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>53,590</u>
Less accumulated depreciation				
Water lines	360	77		437
Vehicles	27,254	4,754		32,008
Equipment	6,226	885		7,111
Office equipment	1,390	348		1,738
Total accumulated depreciation	<u>35,230</u>	<u>6,064</u>	<u>-0-</u>	<u>41,294</u>
Capital assets, net	<u>\$ 18,360</u>	<u>\$ (6,064)</u>	<u>\$ -0-</u>	<u>\$ 12,296</u>

NOTE 5 – COMMITMENTS

On December 17, 1996, the Service Area petitioned the Central Utah Water Conservancy District (CUWCD) for 2,400 acre-feet of municipal and industrial (M&I) water developed by the Bonneville Unit of the Central Utah Project for the purpose of supplying water for municipal and industrial use within its boundaries. In exchange for this petitioned water, the Service Area must pay CUWCD an annual fee. During 2004, the CUWCD changed its billing practices such that the Service Area is billed for the contracted amount of water, rather than based on actual usage. The fee includes 66 percent of CUWCD's repayment obligation to the United States for the Project M&I Water sold, an operation and maintenance fee per acre-foot, and an emergency and replacement reserves fee per acre-foot, both of which are adjusted annually. The Service Area incurred \$258,443 in fees for petitioned water sold in 2005, the balance of which was still owed at year end.

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2005

NOTE 6 – EMPLOYEE BENEFIT PLANS

State Retirement

The Service Area contributes to the Local Governmental Noncontributory Retirement System and the 401(k) Defined Contribution System for qualifying employees. These retirement systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated 1953* (Chapter 49) as amended which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The amount of annual covered salary on behalf of participants in the Local Governmental Noncontributory Retirement System the Service Area was required to contribute was 11.09 percent from the period January 2005 to December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Also, the Service Area contributed 2.44 percent of their covered employee's annual salary to the 401(k) Plan Defined Contribution System.

The Service Area's contributions were equal to the required contributions for the year. The contributions have been as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Local Governmental - Noncontributory	\$ 6,222	\$ 4,018	\$ 4,875
401(k) Plan	1,369	1,108	2,330
Total Service Area contributions	<u>\$ 7,591</u>	<u>\$ 5,126</u>	<u>\$ 7,205</u>

**WASATCH COUNTY
SPECIAL SERVICE AREA #1**

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2005

NOTE 6 – EMPLOYEE BENEFIT PLANS (CONTINUED)

457 Plan

Also, the Service Area offers a voluntary deferred compensation program pursuant to Section 457 of the Internal Revenue Code. In accordance with Governmental Accounting Standards Board Statement 32 (GASB No. 32), the assets and income of the 457 Plan are held in trust for the exclusive benefit of the participants or their beneficiaries; therefore, the assets held in this plan are excluded from the Service Area's financial statements.

Cafeteria

The Service Area offers a cafeteria plan to all employees to fund health insurance benefits.

NOTE 7 – RELATED PARTIES

Wasatch County

The Service Area reimbursed Wasatch County for health insurance premiums paid on behalf of the Service Area employee, and for overhead and accounting services received from County employees totaling \$25,164. The Service Area also paid \$1,118 to the County for reimbursement of postage and equipment expenses. Reimbursements to Wasatch County for the year ended December 31, 2005 totaled \$26,283 of which \$1,705 was still owed at year end. The Service Area is a component unit of Wasatch County.

Jordanelle SSD

The Service Area and Jordanelle SSD are both governed by the Wasatch County Council. As of December 31, 2005 the Service Area had charged Jordanelle SSD a total of \$137,500 for water delivered during the year of which \$31,250 was still due at year end.

Midway Irrigation Company

Members of the Service Area's governing board are also board members or stockholders in Midway Irrigation Company. As of December 31, 2005 the Service Area had charged Midway Irrigation Company a total of \$20,303 for water delivered during the year, the balance of which was still due at year end.

ADDITIONAL AUDITORS' REPORTS AND SCHEDULES

These additional reports are required by *Government Auditing Standards* and the Utah State Auditor's Office, respectively.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the financial statements of Wasatch County Special Service Area #1 as of and for the year ended December 31, 2005, and have issued our report thereon dated May 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Wasatch County Special Service Area #1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Wasatch County Special Service Area #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement

amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Utah State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2006

WASATCH COUNTY
SPECIAL SERVICE AREA #1
A COMPONENT UNIT OF WASATCH COUNTY

Schedule of Audit Findings

December 31, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Wasatch County Special Service Area #1.
2. There were no reportable conditions relating to the audit of the financial statements reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance required to be reported under *Government Auditing Standards*.

B. FINDINGS — FINANCIAL AUDIT CURRENT YEAR

None

C. CURRENT YEAR STATUS OF PRIOR-YEAR FINDINGS

None



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

Honorable Board Members
Wasatch County Special Service Area #1
Heber City, Utah

We have audited the accompanying financial statements of Wasatch County Special Service Area #1 (Service Area) for the year ended December 31, 2005, and have issued our report thereon dated May 16, 2006. Our audit included testwork on the Service Area's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The Service Area did not receive any State grants during the year ended December 31, 2005.

The management of the Service Area is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

There were no instances of noncompliance reported in the prior year.

In our opinion, Wasatch County Special Service Area #1 complied in all material respects with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended solely for the information and use of management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2006